

India

November 07, 2023 - 9:09 AM

**ADD** (no change)

Consensus ratings\*: Buy 5 Hold 3 Sell 0

Current price:	Rs1,957
Target price:	Rs3,000
Previous target:	Rs3,000
Up/downside:	53.3%
InCred Research / Consensus:	21.9%
Reuters:	
Bloomberg:	DATAPATT IN
Market cap:	US\$1,316m Rs109,549m
Average daily turnover:	US\$6.7m Rs561.3m
Current shares o/s:	56.0m
Free float:	57.6%

\*Source: Bloomberg

**Key financial forecast**

	Mar-24F	Mar-25F	Mar-26F
Net Profit (Rsm)	1,966	2,871	3,793
Core EPS (Rs)	35.11	51.27	67.72
Core EPS Growth	58.5%	46.0%	32.1%
FD Core P/E	55.74	38.17	28.89
Recurring ROE	15.7%	19.7%	21.8%
P/BV (x)	8.22	6.95	5.78
DPS (Rs)	7.13	10.42	13.76
Dividend Yield	0.28%	0.40%	0.53%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(6.5)	(1.1)	36.2
Relative (%)	(5.0)	0.4	28.3

Major shareholders	% held
Promoter group	42.4
Axis Mutual Fund	2.4
Tata AIA Life Insurance	2.3

# Data Patterns (India) Ltd

## Steady 2Q; strong execution likely in 2H

- 2Q EBITDA grew 35% yoy due to the higher-than-expected EBITDA margin of 38%. Retains guidance of ~30% revenue growth & ~40% EBITDA margin.
- Won orders worth Rs1.4bn (exports - Rs390m), taking its total order book to Rs10bn (2x TTM sales). Strong order wins worth Rs6-7bn likely in FY24F.
- The stock currently trades at 44x one-year forward EPS. We maintain our ADD rating on it with a target price of Rs3,000 (50x Sep 2025F EPS).

### Higher share of development contracts drives 2QFY24 results

- Data Patterns reported a strong revenue growth of 23% yoy to Rs1.1bn, with the growth primarily driven by development contracts of the Defence Research and Development Organisation or DRDO. EBITDA grew 35% yoy to Rs408m. Data Patterns reported a higher-than-expected EBITDA margin of 38% vs. 34% yoy due to a better product mix.
- **Maintains guidance:** Data Patterns maintained its guidance, including revenue growth of around 30%, gross margin in the range of 60-65%, EBITDA margin at ~40% and order inflow to the tune of Rs6-7bn.

### Strong order book (Rs10bn) provides near-term revenue visibility

- Data Patterns' order book grew significantly in 2QFY24, with new orders worth Rs1.4bn (includes export orders - Rs390m), taking the total order book to Rs10bn (2x TTM sales).
- The company expects the strong new order momentum to continue, expecting further new orders worth Rs788m - where negotiations are complete but the orders yet to be received. Including these orders, the order book stands at Rs10.8bn (2.2x TTM sales).
- Data Patterns' order book is well-diversified, with 59% development orders, 37% production orders, and 4% service orders. The higher share of development contracts in the order book is a positive sign for the company, as it could lead to strong production revenue in the future.

### Conference-call highlights

- **Strategic priorities for the next two years:** Data Patterns envisions significant opportunities in radar, electronic warfare, communication, and satellite markets. The company is actively exploring collaborations with domestic players and assessing export markets. It is targeting participation in contracts worth ~Rs30bn in the next 3-4 years.
- **Order book:** Data Patterns expects most of its current order book (Rs10bn) to be executed by FY25F. The company expects new orders worth Rs788m, where negotiations are complete and the orders for Dharashakti and Arudhra radars are likely in the next 2-3 months. Data Patterns expects to participate in the contracts for the Dornier upgrade program - electronic warfare (EW) systems and radars.
- **Exports:** Data Patterns has an export OB of ~Rs600m, including orders won in 2QFY24 worth Rs390m. These export orders are mainly from the UK, Europe and South Korea.
- **Utilization of IPO/QIP proceeds:** Data Patterns stated that it is utilizing the proceeds received from its IPO (Rs2.8bn) and QIP (4.9bn), in line with the offer documents. It has started product development for radars, communication systems, electronic warfare and satellites. During 2QFY24, major utilization was for capex towards setting up an EMI-EMC testing facility.

### Maintain ADD with a TP of Rs3,000

- Data Patterns currently trades at 44x one-year forward EPS (in line with its one-year average P/E). Strong order-booking in the next 2-3 quarters can improve the valuation.
- Retain our ADD rating on the stock with a target price of Rs3,000 (50x Sep 2025F EPS), implying a 56% upside from the CMP. Downside risks: Lower-than-expected new order wins and margins & any budgetary cut or delay on the part of the government.

**Analyst(s)**

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## Steady 2Q; strong execution likely in 2H

Figure 1: Standalone quarterly financials

(Rs. m)	Quarter ended				
	2QFY24	2QFY23	% Chg	1QFY24	% Chg
<b>Net Sales</b>	<b>1,083</b>	<b>882</b>	<b>23</b>	<b>897</b>	<b>21</b>
<b>EBITDA</b>	<b>408</b>	<b>302</b>	<b>35</b>	<b>278</b>	<b>46</b>
Other income	108	19	486	116	-7
PBITDA	516	320	61	394	31
Depreciation	31	21	44	28	8
Interest	23	12	85	17	31
Extraordinary income	-	-	-	-	-
<b>PBT</b>	<b>463</b>	<b>287</b>	<b>61</b>	<b>349</b>	<b>33</b>
Tax	125	76	64	91	38
Reported PAT	338	211	61	258	31
<b>Adjusted PAT</b>	<b>338</b>	<b>211</b>	<b>61</b>	<b>258</b>	<b>31</b>
<b>EBITDA margin (%)</b>	<b>37.6</b>	<b>34.2</b>		<b>31.0</b>	
<b>Earnings per share (Rs)</b>	<b>6</b>	<b>4</b>	<b>61</b>	<b>5</b>	<b>31</b>
Tax rate (%)	27.0	26.6		25.9	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Actuals vs estimates

(Rs m)	Actuals	InCred estimate	Difference (%)	Bloomberg estimate	Difference (%)
Revenue	1,083	1,200	(9.7)	976	11.0
EBITDA	408	433	(5.9)	213	91.4
EBITDA Margin (%)	38	36		22	
Adj. PAT	338	318	6.4	249	36.0
Adj. EPS	6	6	6.4	4	47.4

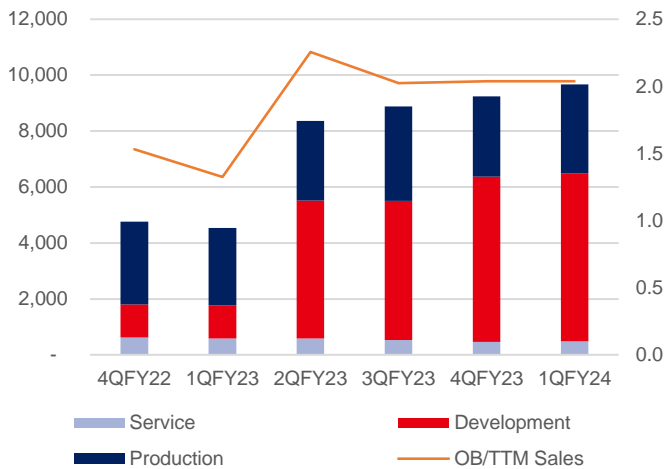
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Historical order book

(Rs m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Order book	4,760	4,534	8,365	8,881	9,241	9,671	10,033
Order flow	700	456	4,713	1,630	2,212	1,327	1,445
OB/Sales (x)	1.5	1.3	2.3	2.0	2.0	2.0	2.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Segmental order book



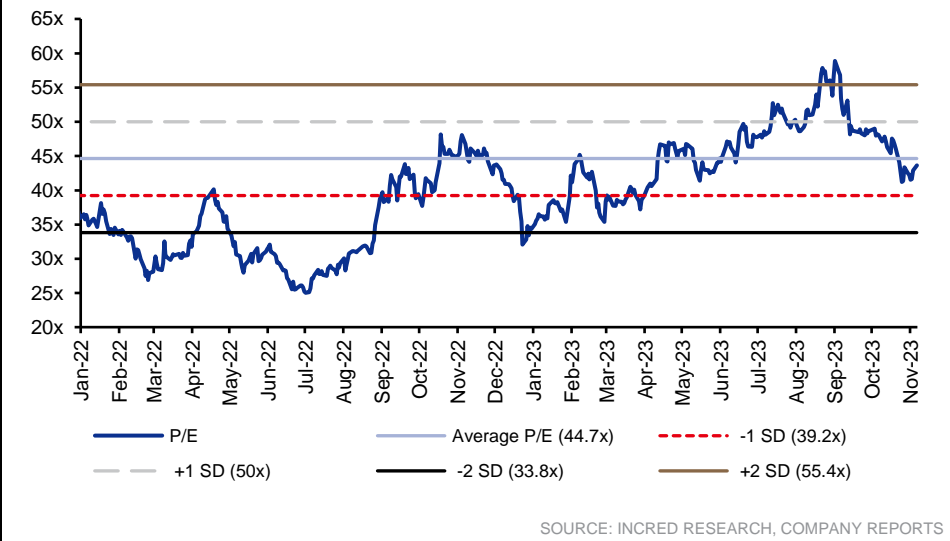
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Major orders won in 1HFY24

Major orders won in 1QFY24			
Product	Customer	Order Type	Value (Rs m)
Electronic warfare	DRDO	Development	362
Radar	Private customer	Production	357
Radar	Export	Production	327
Electronic warfare	DRDO	Development	137
Under-water	DRDO	Production	8
Service	DoS	Service	7
			<b>1,198</b>
Other orders			129
<b>Total order inflow</b>			<b>1,327</b>
Major orders won in 2QFY24			
Product	Customer	Order Type	Value (Rs m)
Avionics	HAL	Production	447
Radar	Export	Development	389
Radar	BEL	Production	321
Avionics	ADA	Production	64
			<b>1,221</b>
Other orders			224
<b>Total order inflow</b>			<b>1,445</b>
<b>Total order inflow in 1HFY24</b>			<b>2,772</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: One-year forward P/E – trading near its one-year average



**Profit & Loss**

(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>4,535</b>	<b>6,284</b>	<b>9,094</b>	<b>12,039</b>
<b>Gross Profit</b>	<b>2,825</b>	<b>4,085</b>	<b>5,911</b>	<b>7,826</b>
<b>Operating EBITDA</b>	<b>1,718</b>	<b>2,555</b>	<b>3,837</b>	<b>5,085</b>
Depreciation And Amortisation	(85)	(143)	(202)	(273)
<b>Operating EBIT</b>	<b>1,634</b>	<b>2,411</b>	<b>3,635</b>	<b>4,812</b>
Financial Income/(Expense)	15	202	182	230
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)				
<b>Profit Before Tax (pre-EI)</b>	<b>1,649</b>	<b>2,614</b>	<b>3,817</b>	<b>5,042</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>1,649</b>	<b>2,614</b>	<b>3,817</b>	<b>5,042</b>
Taxation	(409)	(648)	(946)	(1,249)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>1,240</b>	<b>1,966</b>	<b>2,871</b>	<b>3,793</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>1,240</b>	<b>1,966</b>	<b>2,871</b>	<b>3,793</b>
Recurring Net Profit	1,240	1,966	2,871	3,793
<b>Fully Diluted Recurring Net Profit</b>	<b>1,240</b>	<b>1,966</b>	<b>2,871</b>	<b>3,793</b>

**Balance Sheet**

(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	5,445	5,171	5,164	5,310
Total Debtors	3,825	5,165	7,225	9,236
Inventories	1,930	2,582	3,613	4,618
Total Other Current Assets	591	591	591	591
<b>Total Current Assets</b>	<b>11,791</b>	<b>13,510</b>	<b>16,593</b>	<b>19,754</b>
Fixed Assets	1,134	1,662	2,164	2,843
Total Investments	557	1,114	1,670	2,506
Intangible Assets				
Total Other Non-Current Assets	864	864	864	864
<b>Total Non-current Assets</b>	<b>2,555</b>	<b>3,639</b>	<b>4,698</b>	<b>6,212</b>
Short-term Debt	7	27	47	67
Current Portion of Long-Term Debt				
Total Creditors	431	689	997	1,154
Other Current Liabilities	2,103	2,927	4,235	5,442
<b>Total Current Liabilities</b>	<b>2,541</b>	<b>3,643</b>	<b>5,279</b>	<b>6,664</b>
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities				
<b>Total Non-current Liabilities</b>				
Total Provisions	134	172	249	330
<b>Total Liabilities</b>	<b>2,675</b>	<b>3,815</b>	<b>5,528</b>	<b>6,994</b>
Shareholders Equity	11,671	13,334	15,763	18,972
Minority Interests				
<b>Total Equity</b>	<b>11,671</b>	<b>13,334</b>	<b>15,763</b>	<b>18,972</b>

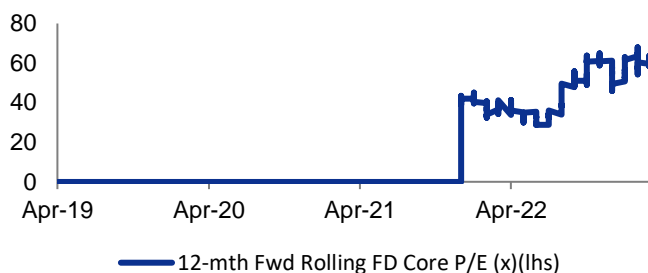
**Cash Flow**

(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	1,718	2,555	3,837	5,085
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(1,504)	(873)	(1,397)	(1,570)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	133	81	87	93
Net Interest (Paid)/Received	(77)	(81)	(87)	(93)
Tax Paid	(409)	(648)	(946)	(1,249)
<b>Cashflow From Operations</b>	<b>(139)</b>	<b>1,034</b>	<b>1,494</b>	<b>2,266</b>
Capex	(549)	(671)	(705)	(951)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow	(205)	(557)	(557)	(835)
<b>Cash Flow From Investing</b>	<b>(754)</b>	<b>(1,228)</b>	<b>(1,262)</b>	<b>(1,787)</b>
Debt Raised/(repaid)	(61)	20	20	20
Proceeds From Issue Of Shares	4,878			
Shares Repurchased				
Dividends Paid	(191)	(303)	(442)	(584)
Preferred Dividends				
Other Financing Cashflow	(60)	202	182	217
<b>Cash Flow From Financing</b>	<b>4,567</b>	<b>(80)</b>	<b>(240)</b>	<b>(346)</b>
Total Cash Generated	3,675	(274)	(7)	133
<b>Free Cashflow To Equity</b>	<b>(953)</b>	<b>(174)</b>	<b>253</b>	<b>499</b>
<b>Free Cashflow To Firm</b>	<b>(815)</b>	<b>(112)</b>	<b>320</b>	<b>572</b>

**Key Ratios**

	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	45.9%	38.6%	44.7%	32.4%
Operating EBITDA Growth	21.8%	48.7%	50.2%	32.5%
Operating EBITDA Margin	37.9%	40.7%	42.2%	42.2%
Net Cash Per Share (Rs)	97.11	91.86	91.38	93.62
BVPS (Rs)	208.41	238.11	281.49	338.79
Gross Interest Cover	21.11	29.67	41.80	51.72
Effective Tax Rate	24.8%	24.8%	24.8%	24.8%
Net Dividend Payout Ratio	15.4%	15.4%	15.4%	15.4%
Accounts Receivables Days	233.75	261.08	248.65	249.52
Inventory Days	333.93	374.39	355.22	356.46
Accounts Payables Days	86.72	92.87	96.63	93.16
ROIC (%)	39.3%	41.5%	50.1%	52.2%
ROCE (%)	19.6%	19.3%	24.9%	27.6%
Return On Average Assets	11.4%	11.2%	14.0%	15.1%

**12-mth Fwd Rolling FD Core P/E (x)**



**Key Drivers**

	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Order backlog (Rs m)	9,241	12,457	14,863	15,824
Order inflows (Rs m)	9,014	9,500	11,500	13,000
OB/Sales (x)	2	2	2	1

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